

## Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03  
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03  
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E.O. 11652: N/A  
TAGS: EIND, EINV, ID  
SUBJECT: INDONESIAN INVESTMENT CLIMATE

1. SUMMARY: GOI INVESTMENT PLANNERS HAVE IN MIND PROPOSALS DESIGNED TO ATTRACT NEW FOREIGN INVESTORS TO INDONESIA, BUT EARLY IMPLEMENTATION OF THEM IS NOT IN THE CARDS.
2. ACCOMPANIED BY OPIC COUNSEL PHILLIPS, EMBOFFS CALLED ON CAPITAL INVESTMENT BOARD (BKPM) DEPUTY CHAIRMAN ANWAR IBRAHIM FOR GENERAL DISCUSSION OF INDONESIAN INVESTMENT SCENE. IBRAHIM REAFFIRMED THAT TO MAINTAIN STEADY PACE OF DEVELOPMENT, FOREIGN AND DOMESTIC INVESTMENT SHOULD EACH RUN AT AN ANNUAL RATE OF \$600 MILLION. HE SAID THE FIRST QUARTER OF THIS YEAR HAD SEEN 83 DOMESTIC INVESTMENT APPLICATIONS BUT ONLY FROM 9 FOREIGN INVESTORS, VALUED AT \$34 MILLION. IBRAHIM CONCEDED THAT THE LOW FOREIGN FIGURE WAS CAUSE FOR CONCERN AND DESCRIBED POTENTIAL FOREIGN INVESTORS AS IN A "WAITING MOOD." HE ADDED THAT EVEN IF THE ENTIRE \$1,200 MILLION IN REQUIRED INVESTMENT COULD BE SUPPLIED BY DOMESTIC SOURCES THE GOI WOULD STILL SEEK FOREIGN INVESTMENT.
3. ASKED TO DESCRIBE ANY POLICY MEASURES CURRENTLY IN THE WORKS DESIGNED TO REMEDY THE SLUMP IN FOREIGN INVEST-

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MENT, IBRAHIM SAID BKPM IS WORKING ON A PACKAGE WHICH INCLUDES IMPROVED INVESTMENT INCENTIVES (BOTH FISCAL AND MONETARY), REVITALIZATION OF THE CUSTOMS DRAWBACK SYSTEM AND ELIMINATION OF THE 5 PERCENT EXPORT TAX ON MANUFACTURES. HE ALSO SAID THE THIRD DEVELOPMENT PLAN WOULD DESIGNATE PRIORITY INDUSTRY SECTORS, THE RAPID PROGRESS OF WHICH IS CONSIDERED CRITICAL TO INDONESIA'S ECONOMIC DEVELOP-

MENT. THERE WILL BE FIVE ROUGH GROUPINGS, AT LEAST TWO OF WHICH -- LARGE-SCALE INDUSTRIES AND EXPORT INDUSTRIES -- SHOULD BE OF INTEREST TO FOREIGN INVESTORS. SOME OF THE OTHER PRIORITY SECTORS ARE OF A SOCIAL NATURE AND MAY REQUIRE GOI SUBSIDIZATION. IBRAHIM WAS NOT OPTIMISTIC THAT ANY OF THESE NEW MEASURES WOULD BE IN EFFECT BEFORE NEXT YEAR.

4. IBRAHIM WAS ASKED IF HE COULD SHED ANY LIGHT ON MIN INDUSTRIES SOEHOED'S RECENT REMARK THAT MEASURES OTHER THAN HIGH TARIFFS MIGHT HENCEFORTH BE USED TO PROTECT INDONESIAN INDUSTRY. (COMMENT: THE CABINET RECENTLY ANNOUNCED ITS DECISION TO DROP IMPORT DUTIES ON MARINE EQUIPMENT USED IN THE SHIPBUILDING INDUSTRY AND ON GOLD, SILVER AND COPPER USED IN THE HANDICRAFT INDUSTRY. WE ARE UNAWARE THAT DUTIES ON FINISHED MARINE OR HANDICRAFT PRODUCTS HAVE BEEN DROPPED OR LOWERED, SO THAT, FOR THE MOMENT AT LEAST, THOSE INDUSTRIES ARE "DOUBLY" PROTECTED.) IBRAHIM REPLIED (AND MIN INDUSTRIES SEC GEN SLAMET CONFIRMED IN A SUBSEQUENT CONVERSATION) THAT SOEHOED SEEKS TO MOVE AWAY FROM HIGH TARIFFS AS THE PRIMARY METHOD OF PROTECTING LOCAL INDUSTRY. IBRAHIM NOTED THAT TARIFF BARRIERS ONCE ERECTED ARE SELDOM DISMANTLED. HE SUGGESTED THAT PROTECTION COULD BE PROVIDED BY FURNISHING CREDIT TO LOCAL INDUSTRY AND BY ABOLISHING IMPORT TAXES ON RAW MATERIALS. SOEHOED ALSO IS SAID TO HAVE IN MIND LIMITED OFFICIAL USE

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IMPROVING THE SUPPLY OF LOW COST RAW MATERIALS AND PROVIDING MARKETING ASSISTANCE. IBRAHIM IMPLIED THAT INDUSTRIES RECEIVING THESE MORE DIRECT FORMS OF ASSISTANCE WOULD BE THE OBJECTS OF MORE FREQUENT EXAMINATION, WITH A VIEW TOWARDS MAKING MORE EFFICIENT OR ELIMINATING THOSE INDUSTRIES UNABLE TO DO WITHOUT PROLONGED SUBSIDIZATION.

5. COMMENT: IBRAHIM IS AN ARTICULATE, CAPABLE OFFICIAL WITH LONG EXPERIENCE IN INDUSTRIAL PLANNING. HE HAS TACKLED HIS NEW BKPM DUTIES WITH ENTHUSIASM BUT AT THE SAME TIME IS REALISTIC ABOUT INDONESIA'S INVESTMENT-RELATED PROBLEMS. WHILE THE MEASURES HE OUTLINED HAVE MERIT IF AND WHEN IMPLEMENTED, NOTHING IBRAHIM SAID GAVE US ANY REAL HOPE THAT THE GOI IS REALLY TRYING TO COME TO GRIPS WITH THE PROBLEM OF IMPROVING ITS DEPRESSED FOREIGN INVESTMENT CLIMATE. DESPITE NUMEROUS STATEMENTS OF GOI INTENTION MORE ACTIVELY TO SEEK NEW FOREIGN INVESTMENT THOSE WHO JUDGE INDONESIA BY WHAT IT DOES RATHER THAN WHAT IT SAYS WILL NOT BE ENCOURAGED. MASTERS

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## Message Attributes

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**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** INVESTMENT OPPORTUNITIES  
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**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
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**Disposition Approved on Date:**  
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**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
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